

8 May 2017

Mark Binns  
Chief Executive  
Meridian Energy Limited  
PO Box 2128  
Christchurch

File reference: 1607MER11

Dear Mark

**Meridian's trading conduct on 2 June 2016**

On 4 May 2017, the Authority's Board considered an allegation by Electric Kiwi that Meridian's trading conduct on 2 June 2016 breached the 'high standard of trading conduct' provisions in the Electricity Industry Participation Code.

On 2 June 2016, North Island generation capacity was tight and the potential for significant price separation between the South and North Islands was signalled in the market schedules early in the day. Meridian realised its retail position in the North Island was exposed and made a number of changes to its offers for the evening peak.

Meridian was pivotal at the time and final prices in the South Island in the range of \$3,000 to \$4,600 per MWh resulted that had no relation to scarcity.

The Board considered the investigator's report compiled under the Electricity Industry (Enforcement) Regulations (Regulations). Amongst other matters, the Board noted:

- Meridian denies its trading conduct on 2 June 2016 was not of a high standard and argues the safe harbours in clause 13.5B(1) of the Code applied.
- The parties to the compliance investigation could not settle the matter themselves.
- The various opinions on what is a high standard of trading conduct, and on the application of the safe harbours.

After considering all the information made available to it, the Board was of the clear view that Meridian's trading conduct on 2 June 2016 was not of a high standard and breached clause 13.5A(1) of the Code. The Board was also of the view that the safe harbours in clause 13.5B(1) of the Code did not apply.

The Board's view is that Meridian used its pivotal position to cover its unhedged risk on 2 June 2016, which essentially resulted in the cost of the risk being met by other parties. The high standard of trading conduct provisions were introduced to improve the efficiency of prices in pivotal supplier situations and the Board would have expected Meridian to have adopted more responsible trading behaviour, either by covering its risk using other available risk management products or bearing the cost of the risk if it eventuates.

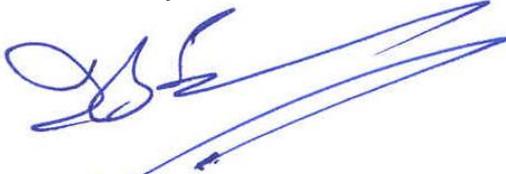
However, the Board is aware that standards of trading conduct are evolving and 2 June 2016 was the first serious test of the Code's high standard of trading conduct provisions. The Board also noted market participants may benefit from further clarification of the provisions. Therefore, the Board will consider including in its 2017/18 work programme a review of the high standard

of trading conduct provisions and whether or not to issue further guidance on what is not a high standard of trading conduct.

In all the circumstances of the matter, the Board decided to formally discontinue the compliance investigation under regulation 23(3)(a) of the Regulations.

However, the Board warns Meridian that it does not expect a repeat of Meridian's trading conduct on 2 June 2016 in the future and Meridian's performance in that regard will be closely monitored. Any further non-compliance will almost certainly result in a higher-level intervention.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Brent Layton', written over a blue horizontal line.

Brent Layton  
**Chair**